

21.04 Fuctional Expense Analysis & Disclosures

Functional Expense Analysis

In addition to the three F/S required of all NPOs, an analysis of functional expenses is required. The analysis is not an additional financial statement. Instead, it is a detailed schedule of expenses broken down by function such as program expenses and support services. It may be presented on the face of the statement of activities, as a separate statement, or as a note to the NPO's F/S. In such an analysis, the following detail is provided:

	Program Activities				Supporting Activities			
	A	B	C	Program Subtotal	Mgmt & General	Fund-raising	Supporting Subtotal	Total Expense
Salaries & benefits	\$6,660	\$3,510	\$1,553	\$11,723	\$1,017	\$ 864	\$1,881	\$13,604
Grants to other organizations	1,867	675	1,733	4,275				4,275
Travel & supplies	801	912	449	2,162	192	486	678	2,840
Services & prof. fees	144	1,341	540	2,025	180	351	531	2,556
Office & rent	1,044	540	405	1,989	196	90	286	2,275
Depreciation	1,296	720	513	2,529	225	126	351	2,880
Interest	<u>154</u>	<u>86</u>	<u>60</u>	<u>300</u>	<u>24</u>	<u>18</u>	<u>42</u>	<u>342</u>
Total Expenses	\$11,966	\$7,784	\$5,253	\$25,003	\$1,834	\$1,935	\$3,769	\$28,772

- **Program Activities** – (Further the mission of the organization) These are expenses that are directly related to the program. For example, a relief organization might report categories for emergency relief, community education, training, research, hospice services, etc. In the example above, Programs A, B, and C represent program services of the NPO.
- **Supporting Activities** – (Secondary to the mission) Fund-raising expenses and General and Administrative expenses are reported.
 - Management & General – marketing, tax preparation, printing annual report, business management, budgeting.
 - Fundraising – (Print & mail pledge cards, maintaining donor list, preparing and distributing fund raising materials, merchandise sent to potential contributors, salaries of fundraisers, and conducting other activities designed to solicit contributions)
 - Membership development – Soliciting for potential members and for dues, costs associated with member relations and similar activities

Statement of Activities Summary	
Public support	<ul style="list-style-type: none"> • Donated • Eg, contributions, grants, bequests, pledges, special event revenues
+ Revenues	<ul style="list-style-type: none"> • Earned • Eg, membership dues, investment income, client service revenue, fees
- Program expenses	<ul style="list-style-type: none"> • Furthers the mission of the organization • Boat depreciation, research, community services, public health, and education
- Support services	<ul style="list-style-type: none"> • Secondary to the mission
	<ul style="list-style-type: none"> • Management & General – Marketing/ tax prep/print annual report
	<ul style="list-style-type: none"> • Fundraising – Print and mail pledge cards, maintaining donor list, merchandise sent to potential contributors, salaries of fundraisers
Excess of revenue over expenses	

Again, the analysis of functional expenses may be presented on the face of the statement of activities, as a separate statement, or as a note to the NPO's F/S. One specific type of NPO is a **voluntary health and welfare organization (VHWO)**, which provides community services financed by voluntary contributions from the general public, such as the Red Cross or Greenpeace.

Management & general expenses include the **cost of soliciting funds** other than contributions and membership dues. This includes advertising and other costs of promoting goods or services for sale to customers; costs of responding to requests for proposals for customer-sponsored contracts, or of administering such contracts. They are not considered fundraising expenses.

Disclosures

Required disclosures for NPOs include:

- Information on endowment funds – net asset classification, composition, and changes; spending policies; related investment policies.
- The board's interpretation of the laws underlying the NPO's classification of donor-restricted endowment funds, including its interpretation of the ability to spend from **underwater endowment funds**. These are endowment funds whose fair value at the reporting date is less than either:
 - the original gift value, or
 - the amount required to be maintained in the fund, either by law or donor stipulation.
- The NPO's spending policies regarding endowment funds, including underwater endowment funds.
- How the NPO computes its fundraising expenses to amounts raised ratio, if such a ratio is disclosed.